Kay Corporation

ANNUAL REPORT 1973

Contents

Kay Corporation

Kay Corporation is an international trading and merchanting company. It is the modern counterpart of the centuries-old trading company whose activities covered the globe, linking sources of supply to markets. The company provides many services, capabilities, market intelligence and financing to bring raw materials, commodities and finished products together with wholesale, retail and consumer markets here and abroad.

The International Trade Division is engaged in importing coffee, rubber, timber and wood products, edible nuts, agricultural commodities, seafood, jute products, carpets, and unfinished textiles into the United States. It exports finished goods and commodities produced in the United States, acts as commodity brokers, and trades and handles livestock. The Division also owns a 50% interest in Metal Traders, Inc., traders in metals and ores.

The Retail Division operates Kay Jewelry stores, leased fine jewelry departments in department stores, Tweed Fashion stores and the guild jewelers, Black, Starr & Frost, Ltd.

The Financial Services Division, through its 71% interest in Mercantile Industries, Inc., is engaged in commercial and consumer finance, and the fire and casualty insurance business.

Kay Corporation's common stock is listed on the American Stock Exchange; its symbol is KAY. At December 31, 1973, The Bowater Corporation Limited, London, England owned approximately 62% of the outstanding common stock.

Financial Highlights

	1973	1972	**Percentage Increase**
Revenues	**$226,572,000**	$137,181,000	**65%**
Net income	**3,226,000**	1,758,000	**84%**
Earnings per common share	**.62**	.50	**24%**
Stockholders' equity	**27,137,000**	12,435,000	**118%**
Average number of common shares	**5,213,000**	3,502,000	**49%**
Book value per common share	**4.98**	2.78	**79%**

To Stockholders of Kay Corporation:

Kay Corporation enjoyed significant increases in revenues and net income in 1973. We further strengthened our expanding role in world trade.

Revenues in 1973 were $227,000,000 compared to $137,000,000 in 1972. Net income for 1973 was $3,226,000 ($.62 per share) up from $1,758,000 ($.50 per share) in 1972. The per share earnings are based on 5.2 million average common shares outstanding during 1973, compared to 3.5 million average common shares outstanding during 1972.

Income after taxes in 1973 from consolidated subsidiaries was $1,934,000, and from unconsolidated affiliates $1,292,000.

The small increase in income from consolidated subsidiaries in 1973 compared to 1972 fails to reflect the internal growth of the businesses involved. As I pointed out in the 1972 annual report, earnings in 1972 included the operations of the Retail Division only for the period since its acquisition in July. Profits in 1972, therefore, included the most profitable months of the retail cycle and not the historically unprofitable period in the beginning of the year. Results in 1973, on the other hand, reflect the full 12 month operations.

Among the highlights of the year was the establishment of a semi-annual cash dividend policy. The initial dividend of $.10 per share was paid November 15, 1973. Another dividend of $.10 per share will be paid May 9, 1974 to stockholders of record on April 15, 1974.

The operating results of the company indicate the substantial progress that has been made in the past year. It is equally important, though, to touch on those aspects of the company that cannot be measured in any prescribed manner. I am thinking primarily of how we have strengthened the fundamentals on which the future growth of the company is based. We have diverse interests in international trading, retailing and financial services, all of which have been brought together within the past two years. We have established a cohesive organization, a corporate identity and an understanding of our goals among our employees.

I am delighted that, throughout the company, a significant number of Kay people have become stockholders in the corporation, either through the exercise of stock options or by purchases of our securities on the open market. In addition, 233 Kay employees hold stock options today. We feel that this participation among the employees creates the incentive that is the very fabric of a fine company.

I am also proud to inform you that, in December, your board of directors approved a new pension plan consolidating all existing plans and giving greatly improved retirement benefits to Kay employees.

The company was fortunate, in August, when Whitney I. Gerard agreed to serve on your board of directors. Mr. Gerard, a partner of the law firm of Alexander and Green, specializes in international corporate law. He is also a director of the Dreyfus Fund and The Dreyfus Special Income Fund.

Eric H. Morland, former vice president and a valued director, has retired from the company and returned to Europe. We wish him well and are grateful for his important contributions to Kay Corporation.

In this annual report we have endeavored to provide a great deal of analytical information which we hope you will find helpful in understanding the operations of the company. You will find specific information relating to each division, such as reviews of revenues and income contributions to the corporation, and reviews of income contributions within each of our three divisions. We have also prepared a two year analysis of operations of Kay Corporation, which takes us back to the beginning of the company as it is presently structured, and a review of stock performance and book value. Should you wish still more detail, we would be delighted to mail a copy of the Form 10-K filed with the Securities and Exchange Commission. An order card is enclosed in this report for your convenience.

Divisional Operations

In reviewing the results of our operations in 1973, you will be pleased with the exceedingly fine performance of the International Trade Division. Its contributions to consolidated revenues and net income were $179,000,000 and $2,968,000, respectively.

The Retail Division continued to improve throughout the year; by no means, however, did it achieve its full potential. Its contribution to consolidated revenues was $48,000,000, and to net income was $587,000.

The Financial Services Division contributed $2,000 to Kay's net income in 1973. This represented income earned by the division since April and May 1973 as a result of its 71% interest in Mercantile Industries, Inc.

The divisional results mentioned above do not include unallocated corporate charges of $331,000, net of income taxes.

Since it is more informative to present separate financial statements for the unconsolidated financial subsidiaries of a corporation, you will find the financial statements for Mercantile Industries beginning on page 22.

1973 Acquisitions

The acquisition of Mercantile was one of several important acquisitions made during the year. While Mercantile's performance was disappointing, others performed very well, and Metal Traders, Inc., for example, greatly exceeded our expectations.

Metal Traders is carried on our books as an investment of the International Trade Division. We acquired 50% of Metal Traders in April, 1973. Merrill Lynch, Pierce, Fenner & Smith Incorporated owns the remaining shares. Metal Traders contributed $1,290,000 to consolidated net income in 1973.

As reported in the 1972 annual report, the acquisition of Union Stock Yards Company of Omaha (Limited) was completed in March 1973. Union contributed $281,000 to consolidated net income in 1973.

Other acquisitions in 1973 were William L. Marshall, Limited, an importer and merchant of fine veneers and lumber, acquired in April 1973, and Tri-Pac International, Inc., an importer of unfinished textiles, acquired as of October 1973. Marshall and Tri-Pac contributed $73,000 and $133,000, respectively, to consolidated net income in 1973.

Our expansion has been created in part through acquisitions. It is important to note, however, the improvement in revenues and earnings we have achieved in many of the acquired companies. All of these fit into a corporate pattern, with each company complementing and strengthening the others within their respective divisions.

During 1973 we continued to improve our position as international traders and merchants in the United States, and throughout the world.

While we have confidence in your company's internal capability to grow and prosper, we will, nevertheless, continue to carefully study appropriate acquisition opportunities that would strengthen the fundamental businesses of Kay Corporation.

Outlook for 1974

The first quarter of the year continues to be a difficult one because of the seasonal nature of our business. The pressure on our first quarter profits this year will be much greater than before. Compared with last year, we have significantly increased the number of retail facilities in operation, and such facilities traditionally operate at a loss during this quarter. Also, our Financial Services Division, acquired in 1973, has historically experienced a weak first quarter.

For the year, however, I foresee continued expansion of the businesses of the corporation. The International Trade Division will most likely remain the profit leader in 1974 with both the Retail Division and Financial Services Division improving their respective contributions to corporate income.

In conclusion, I hope you will share with me my pride in the enthusiasm and support of all our employees. While many are new to Kay Corporation, they have contributed much to our growth, and I wish to express my personal thanks to all of them.

Sincerely,

A. C. van Ekris

Anthonie C. van Ekris
President

International Trade Division

The center of International trading, New York's waterfront was bustling with cargo even in the early 1800's. South Street and Maiden Lane, the heart of the city's commodity trading in the 1800's is the site of Kay's International Trade Division headquarters today.

(Courtesy of N. Phelps Stokes Collection, Prints Division, The New York Public Library, Astor, Lenox and Tilden Foundations)

International Trade Division

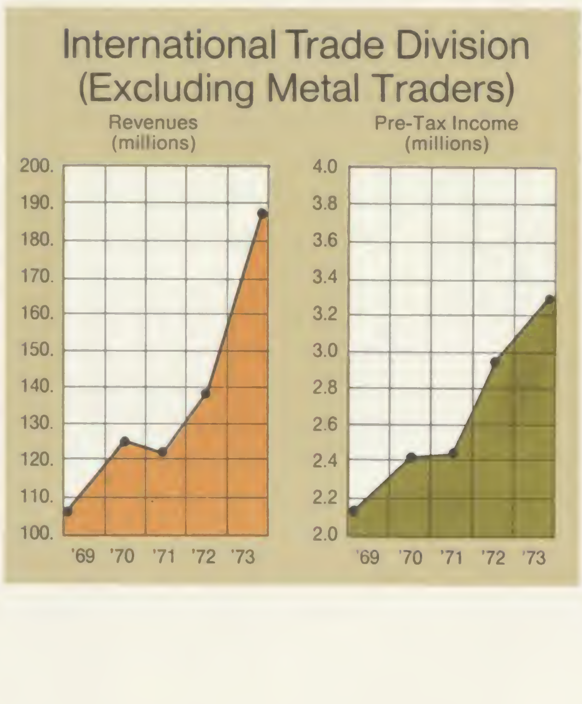
The International Trade Division (ITD) not only made the major contribution to Kay's record earnings during 1973, but also is the segment of the company which gives Kay its distinctive international trading flavor. Ranging from coffee beans to dried nuts, from burlap to frozen seafood, livestock trading to precious metals, the ITD activities truly encompass the globe, and in many ways it is one of the most exciting segments of Kay Corporation.

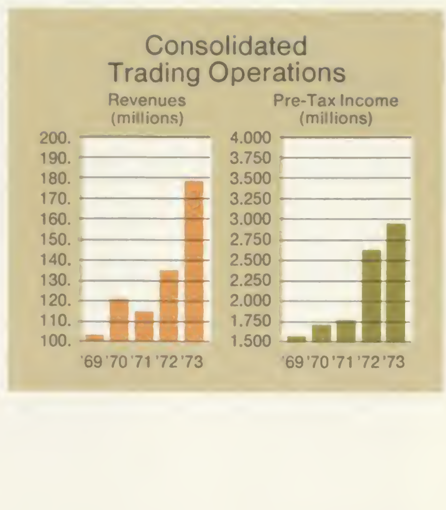
The advance in profits gained last year by ITD came in the face of widely fluctuating currency values around the world. Despite fluctuation in the dollar, the market for the division's wide array of commodities not only held fast, but rose, as did profits.

With the demise of the International Coffee Organization and the rebirth of the Coffee Futures Market in New York, coffee has experienced a free flow of trading during 1973 resulting in increased prices and activity. Rubber trading was also favorably affected by a substantial revival in prices and activity, influenced by the increased use of radial tires in the United States. Major efforts in solidifying our position in the trade of frozen seafood during 1973 were successful too, with the nearly doubling of 1972 volume.

The trading of fine veneers and timber, carpets and cotton greige goods also reached higher levels of profitability. World-wide de-

(Cont. on page 6)





mand for refrigeration and bulk storage facilities resulted in our surpassing initial earnings goals in the exporting and distributing of that equipment.

In 1973, we installed a computer-based trading information system which has enhanced significantly our traders' ability to monitor their positions currently against markets that can change substantially day by day.

Union Stock Yards' profit from its operations for the ten months of 1973 following acquisition by Kay were approximately 58% above those of the previous corresponding period. This substantial increase was achieved in the face of unprecedented difficulties created by climatic and economic factors.

Proven markets and loyal customers coupled with an historically reliable group of suppliers throughout the world, leads us to be optimistic about a profitable 1974.

Metal Traders, Inc.
(50% owned)

Metal Traders, Inc., is a trader in metals, ores and concentrates, and an operator of antimony mines in Bolivia. The Company is owned equally by Kay Corporation and Merrill Lynch, Pierce, Fenner & Smith. The 50% ownership by Kay Corporation is carried on the books as an investment of the International Trade Division.

Metal Traders' income for 1973 totaled $2,669,000 compared with a loss in 1972 of $1,257,000 (not including extraordinary items in each year). Contribution to Kay's net income in 1973 was $1,290,000.

The very impressive turnaround in Metal Traders came after a complete reorganization and restructuring of the company following its acquisition by the present owners. Furthermore, market conditions in 1973 were extremely favorable, and the company had very successful and active dealings in copper, zinc, lead, and other metals.

In addition to the fine results from these activities, trading in antimony ores, used in various flame-retardant materials and dry batteries, has also made a major contribution in 1973.

Retail Division

The new Kay Corporation and Retail Division headquarters are both located in the Kay Building in historic Alexandria, Virginia. Unveiled in March 1973, the Kay Building is an integral part of the city's revolutionary period reconstruction project.

Retail Division

The Retail Division enjoyed substantial growth in 1973. Annual sales from continuing operations increased to $48,000,000, from $38,000,000 in 1972. Sales per square foot increased to $136 in 1973, compared with $117 the year earlier.

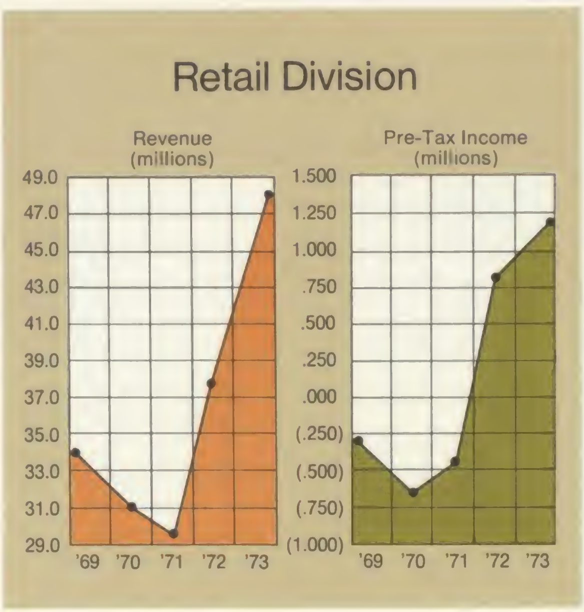
Profits did not, however, grow at the same rate as sales. This is partly because of the costs involved in completely redesigning the merchandising approach of our Tweed Fashion operation, and partly because of the high costs involved in centralizing management activities and installing new automated controls throughout the division. This consolidation is largely completed, and we hope 1974 profits will increase along with our anticipated sales growth.

In 1973 we expanded our jewelry store, leased fine jewelry department and fashion store activities, bringing the total number of retail units at the end of 1973 to 214, compared with 188 in December 1972.

Total sales space increased to 353,000 square feet compared with 328,000 square feet last year. During 1973,18 marginally profitable units were closed or sold.

A new computerized accounts receivable system became operational during the year and a computerized inventory control system will become operational during 1974. The new inventory control system will provide more frequent, reliable information on merchandise stocks. This will improve inventory distribution among the stores and enable the company to provide more rapid replacement of fast moving items.

The company has completed a study into the methods of attracting, training and keeping efficient, career-oriented store managers which has led to the design of a formal Store Managers' Training Program being introduced in 1974. This program, along with the stock option and improved pension programs mentioned in the President's letter, should develop the professional store executives needed to maximize retail sales and profits.



Jewelry

The fine jewelry stores and leased fine jewelry departments showed significant increases in sales per square foot and profits in 1973. Twenty-five new units were opened and 17 units closed during the year.

Two openings are worthy of particular note. The first was the opening in Boca Raton, Florida, of Black, Starr & Frost, a guild jewelry store. The second, a Kay jewelry store facility in East Brunswick, New Jersey, is a prototype representing a new approach to jewelry merchandising.

We are monitoring the success of these two new operations very carefully in terms of planning for future development.

There are 21 new jewelry stores and departments scheduled for opening in 1974.

Fashion

The reorganization of our fashion operations caused sales per square foot during 1973 to remain relatively static while profit declined. This was expected during a time when we have been upgrading the quality of our merchandise to appeal to a different type of customer than in the past. The improved quality and style of our fashion merchandise is slowly gaining acceptance, and we hope that 1974 sales will reflect this. Nevertheless, it will probably be 1975 before our fashion business begins to show an acceptable level of profitability.

In 1973, 19 new fashion units were opened and one was closed. We have also been experimenting with a new and simpler style of Tweed Store which is not only less expensive to construct but is more adaptable to the display of different types of merchandise.

During 1974 we have plans to open 12 fashion units under the Tweed name.

Financial Services Division (Mercantile Industries Inc., 71% owned)

Mercantile had its origins in Chicago's "loop" business district in the early 1900's. Even then a burgeoning business center, Chicago today is the heart of the mid-western U.S. financial community.

(Courtesy Chicago Historical Society)

Financial Services Division

Mercantile Industries, Inc.
(71% owned)

The Financial Services Division consists of a 71% common stock interest in Mercantile Industries, Inc., a Chicago-based holding company with broad interests in money oriented fields. Mercantile Industries has two principal subsidiaries, Mercantile Financial Corporation, a 57-year-old commercial and consumer financing firm, and Parliament National Corporation, which is in the fire and casualty insurance field.

Commercial Finance:

Commercial finance operations are conducted nationally through offices located in Chicago, Illinois, San Jose and Los Angeles, California and Dallas, Texas. Loans are made to companies in a wide variety of industries. Its customers primarily pledge their business assets, including accounts receivable, inventory, machinery and equipment as collateral for funds advanced, which they use as their business needs dictate. These traditional financing techniques are augmented by more sophisticated lending procedures when such arrangements will help to provide a customer with tailored financing to meet his specific needs.

Consumer and Small Business Loans:

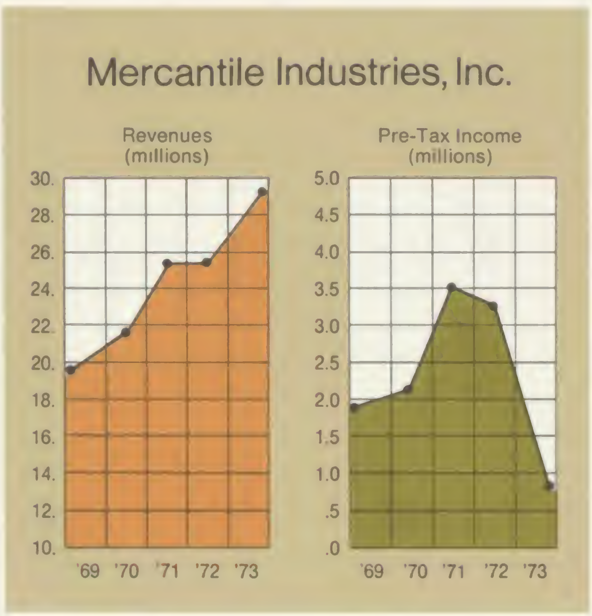
Consumer loans are processed through offices located in Chicago and East St. Louis, Illinois. Small Business Loans are conducted through offices located in Chicago, Illinois, San Jose and Los Angeles, California, Denver, Colorado, and Norwalk, Connecticut. Consumer loans ranging from $800 to $7,500 and small business loans from $5,000 and up are made by this operation. These loans are generally collateralized by non-business real estate and in some instances by business and/or individually-owned personal property.

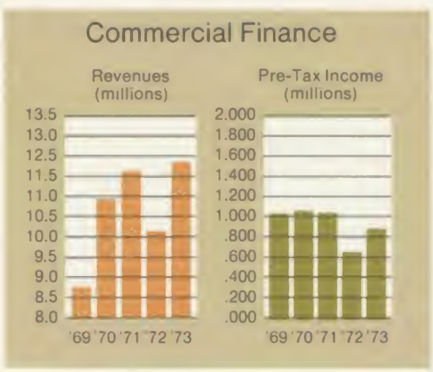
Fire and Casualty Insurance Operations:

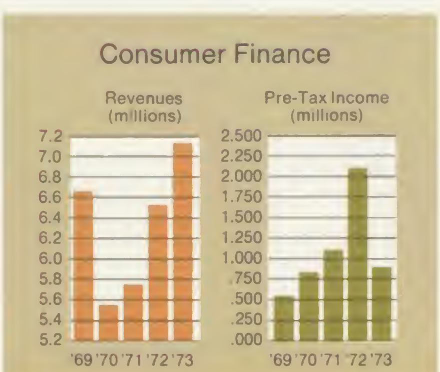
Fire and casualty insurance is written on an admitted basis in the states of Illinois, Arizona, Missouri, California, Indiana, Florida, Tennessee and Kentucky. Insurance is also written on an "excess and surplus lines" basis in 32 other states, Washington, D.C. and Puerto Rico.

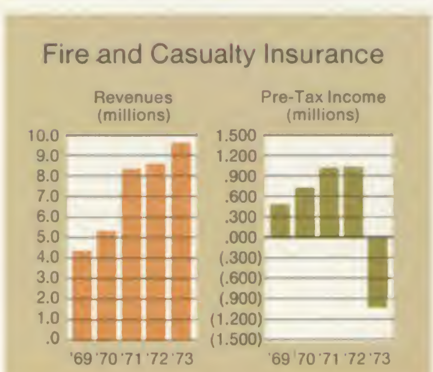
The types of casualty insurance written include automobile physical damage and liability, fire and extended coverage, liability other than automobile, surety, workman's compensation and homeowners.

Mercantile Industries' results were adversely affected in 1973 by unusually high short term interest rates, principally in the financing operations, and by unexpectedly high losses in the surety bond line of its insurance operations and by sizable adjustments in the loss reserves for other lines of insurance.









Kay Corporation
Consolidated Financial Statements

Consolidated Balance Sheet
Kay Corporation

Assets

	December 31 1973	December 31 1972
Current assets:		
Cash (Note 4)	$ 7,793,000	$ 5,280,000
Notes and accounts receivable, less allowance for doubtful accounts of $841,000 and $1,055,000 at December 31, 1973 and 1972 (Note 4)	18,676,000	19,377,000
Due from affiliates	253,000	807,000
Inventories (Note 4)	41,607,000	26,148,000
Other	1,789,000	903,000
Total current assets	70,118,000	52,515,000
Fixed assets, at cost:		
Land	5,408,000	315,000
Buildings	2,040,000	633,000
Leasehold improvements	4,593,000	2,682,000
Furniture, fixtures and equipment	2,316,000	1,503,000
	14,357,000	5,133,000
Accumulated depreciation and amortization	(1,178,000)	(528,000)
	13,179,000	4,605,000
Investment in and advances to unconsolidated affiliates (Note 3)	20,471,000	
Goodwill	3,872,000	3,883,000
Other assets	2,557,000	1,335,000
	$110,197,000	$62,338,000

See accompanying notes.

Liabilities and Stockholders' Equity

	December 31 1973	December 31 1972
Current liabilities:		
Notes and acceptances payable to banks (Note 4)	$ 31,022,000	$15,216,000
Accounts payable and accrued liabilities	29,442,000	18,489,000
Due to affiliates (Note 5)	535,000	10,015,000
Income taxes payable, including deferred of $1,100,000 at December 31, 1973 and 1972 (Note 7)	3,152,000	3,566,000
Current portion of long-term debt (Note 6)	1,097,000	333,000
Total current liabilities	65,248,000	47,619,000
Long-term debt, less current portion (Note 6)	9,586,000	1,433,000
Due to Bowater-Ralli America Inc. (Note 5)	7,750,000	
Minority interests	476,000	851,000
Stockholders' equity (Note 2):		
Serial preferred stock, par value $1 per share; authorized—1,000,000 shares; no shares issued		
Common stock, par value $1 per share; authorized—14,000,000 shares (9,000,000 at December 31, 1972) issued and outstanding—5,450,000 shares (4,467,000 at December 31, 1972)	5,450,000	4,467,000
Additional paid-in capital	15,929,000	4,893,000
Retained earnings (Note 6)	5,758,000	3,075,000
	27,137,000	12,435,000
	$110,197,000	$62,338,000

Consolidated Statement of Income
Kay Corporation

	Year ended December 31 1973	1972
Revenues:		
Net sales	$218,527,000	$134,797,000
Commissions, fees, interest and other income	8,045,000	2,384,000
	226,572,000	137,181,000
Costs and expenses (less interest allocated to unconsolidated affiliate):		
Cost of sales	194,289,000	122,708,000
Selling, general and administrative	25,122,000	9,518,000
Interest	3,227,000	1,322,000
	222,638,000	133,548,000
Income from consolidated operations before income taxes	3,934,000	3,633,000
Provision for income taxes (less amount allocated to unconsolidated affiliate) (Note 7):		
Current	2,000,000	1,110,000
Deferred		765,000
	2,000,000	1,875,000
Income after income taxes from consolidated operations	1,934,000	1,758,000
Equity in earnings of unconsolidated affiliates (Note 3)	1,545,000	
Less interest allocated to unconsolidated affiliate, net of current income taxes of $263,000 (Note 3)	253,000	
	1,292,000	
Net income	$ 3,226,000	$ 1,758,000
Earnings per common share (Note 9)	$.62	$.50
Average number of common shares deemed outstanding	5,213,000	3,502,000

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Kay Corporation

Two years ended December 31, 1973	Capital stock	Additional paid-in capital	Retained earnings
Balance at January 1, 1972	$1,393,000	$ 118,000	$1,863,000
Net income for the year ended December 31, 1972			1,758,000
Cash dividends to Bowater-Ralli America Inc. (Note 2)			(546,000)
Combination of Indiran, Inc. (Note 2)	300,000	939,000	
Exchange of common stock in connection with the acquisition of Kay Jewelry Stores, Inc. (Note 2)	2,873,000	2,930,000	
Issuance of note payable for common stock of Indiran, Inc. (Note 2)	(300,000)	(939,000)	
Capital contribution relating to stock options (Note 10)		222,000	
Deferred compensation relating to stock options (Note 10)		(180,000)	
Common stock issued in connection with the acquisition of Jewelsmiths, Inc. (Note 2)	201,000	1,803,000	
Balance at December 31, 1972	4,467,000	4,893,000	3,075,000
Net income for the year ended December 31, 1973			3,226,000
Cash dividend			(543,000)
Common stock issued in connection with acquisitions (Note 2)	983,000	11,015,000	
Cancellation and reissuance of stock options (Note 10)		(19,000)	
Amortization of deferred compensation relating to stock options (Note 10)		40,000	
Balance at December 31, 1973	$5,450,000	$15,929,000	$5,758,000

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Kay Corporation

	Year ended December 31 1973	1972
Source of funds:		
Operations:		
Net income	$ 3,226,000	$ 1,758,000
Add (deduct) items not requiring (providing) funds:		
Depreciation (calculated on a straight-line basis)	744,000	348,000
Goodwill amortization	100,000	31,000
Equity in undistributed earnings of unconsolidated affiliates (Note 3)	(1,545,000)	
Compensation relating to stock options (Note 10)	21,000	42,000
Funds provided from operations	2,546,000	2,179,000
Common stock issued in connection with acquisitions (Note 2)	11,998,000	7,807,000
Financing in connection with acquisitions (Note 2)	15,633,000	1,309,000
Decrease in marketable securities	3,999,000	
Decrease in notes and accounts receivable, net	2,271,000	
Decrease in due from affiliates	844,000	
Increase in notes and acceptances payable to banks	9,162,000	2,957,000
Increase in accounts payable and accrued liabilities	7,429,000	742,000
Increase in income taxes payable		845,000
Subordination of debt (Note 5)	7,750,000	
Increase in due to affiliates		285,000
Decrease in other current assets		150,000
Total funds provided	$61,632,000	$16,274,000
Application of funds:		
Acquisition of consolidated subsidiaries (Note 2)	$12,924,000	$ 9,928,000
Acquisition of unconsolidated affiliates (Note 2)	16,176,000	
Increase in cash	1,882,000	30,000
Increase in notes and accounts receivable, net		1,869,000
Increase in due from affiliates		98,000
Increase in inventories	12,091,000	2,741,000
Increase in other current assets	777,000	
Net additions to fixed assets	2,905,000	573,000
Advance to unconsolidated affiliate	2,750,000	
Decrease in due to affiliates	9,588,000	
Decrease in income taxes payable	483,000	
Net payment of long-term debt	376,000	327,000
Dividend payments	543,000	546,000
Increase in other assets	1,137,000	162,000
Total funds applied	$61,632,000	$16,274,000

See accompanying notes.

Notes to Consolidated Financial Statements
Kay Corporation

1. Summary of Significant Accounting Policies

Inventories

Commodity inventories of consolidated subsidiaries are valued as follows: unhedged unsold inventories at the lower of specific cost or market; sold inventories at net realizable value; hedged inventories and hedging contracts at market; and forward contracts, other than hedging contracts, at the lower of cost or market, on a net basis. Retail inventories are stated at the lower of cost or market, as determined principally by the retail inventory method.

Goodwill

Goodwill is amortized on a straight-line basis over a period of forty years.

Pension plans

It is the Company's policy to fund accrued pension costs. Unfunded past service costs are amortized over periods of ten to thirty years.

Income taxes

Deferred income taxes included in current liabilities arise from the use of the instalment method of reporting instalment sales for tax purposes and the accrual method for financial statement purposes. Investment tax credits are applied as a reduction of the provision for income taxes in the year in which the credits are realizable.

Stock options

The difference between fair market value and the option price at the time options are granted is recorded as compensation expense and credited to additional paid-in capital as a capital contribution over the terms of the options. Proceeds received upon exercise of options in excess of par value are credited to additional paid-in capital.

Pre-opening costs

Pre-opening costs relating to retail stores and leased departments are capitalized and amortized on a straight-line basis over five years.

2. Basis of Financial Statement Presentation

As of July 31, 1972 Kay (formerly Kay Jewelry Stores, Inc.) issued 2,900,000 shares of its common stock to Bowater-Ralli America Inc. (Ralli) in exchange for the outstanding capital stock of the following Ralli Subsidiaries (the Ralli Subsidiaries): R.E.B. Willcox & Co. (New York), Inc. and subsidiaries; Balfour, Maclaine International Ltd. and subsidiaries; Van Ekris & Stoett, Inc. and subsidiaries; The Fritz & La Rue Company and subsidiary; and Naumann, Gepp & Co., Inc. Since the majority of the outstanding shares of Kay after the transaction were attributable to the Ralli Subsidiaries, the exchange was accounted for as the purchase of Kay by the Ralli Subsidiaries. Prior to Ralli's acquisition of Kay and in accordance with the acquisition agreement, the Ralli Subsidiaries and Indiran, Inc. paid cash dividends of $546,000 to Ralli, equal to their combined net income for the seven months ended July 31, 1972.

Kay's consolidated financial statements include the accounts of all subsidiaries except Mercantile Industries, Inc. Kay's seventy-one percent investment in Mercantile and Kay's fifty percent investment in Metal Traders, Inc. are stated at cost plus equity in undistributed earnings since acquisition by Kay. Significant intercompany accounts and transactions have been eliminated in consolidation.

Net assets of companies acquired have been recorded using the purchase method of accounting. Net earnings are reflected in Kay's consolidated statement of income from the respective dates of acquisition. The excess of cost over value of net assets acquired is included in the balance sheet as goodwill for consolidated companies and included in investments for unconsolidated affiliates.

Acquisitions by Kay:	Effective acquisition date	Kay shares issued	Value of shares issued	Debt financing	Direct costs of acquisitions	Cost	Value of net assets acquired	Goodwill
					(in thousands)			
Acquisition of consolidated subsidiaries:								
Indiran*	1/1/72			$ 1,309		$ 1,309	$ 1,309	
Kay Jewelry Stores	7/31/72	1,365	$ 5,803		$407	6,210	3,657	$2,553
Jewelsmiths	10/31/72	201	2,004		79	2,083	807	1,276
Fleetwood International	11/30/72					326	241	85
			$ 7,807	$ 1,309	$486	$ 9,928	$ 6,014	$3,914
Union Stock Yards	3/1/73	343	$ 4,553	$ 4,854	$697	$10,104	$10,104	
Minority interests in certain subsidiaries	3/31/73	7	78			78	78	
William L. Marshall*	4/1/73	75	891		33	924	835	$ 89
Minority interests in certain subsidiaries	7/31/73	29	289		20	309	309	
Tri-Pac International	10/1/73			1,218	41	1,259	1,259	
Balmac Sugar*	12/31/73			250		250	250	
					$791	$12,924	$12,835	$ 89
Acquisition of unconsolidated affiliates:								
Mercantile Industries:								
Common Stock (a 36% interest)*	4/1/73	410	4,865		$543	$ 5,408	$ 2,732	$2,676
Common Stock (a 35% interest)	5/15/73			4,796	90	4,886	2,719	2,167
Preferred Stock	12/31/73			3,379		3,379	3,379	
Warrants	4/1/73			1,136		1,136		1,136
Warrants	12/31/73	13	52			52		52
Metal Traders (a 50% interest)*	4/1/73	107	1,270		45	1,315	1,315	
			$11,998	$15,633	$678	$16,176	$10,145	$6,031

*Acquired from Ralli

The net cost of consolidated subsidiaries acquired during the two years ended December 31, 1973 was allocated as follows:

	1973	1972
	(in thousands)	
Cash	$ 631	$2,771
Marketable securities	3,999	
Notes and accounts receivable, net	1,570	6,607
Inventories	3,368	12,866
Due from affiliates	290	
Other current assets	109	621
Fixed assets	6,413	4,157
Other assets	85	854
Notes and acceptances payable to banks	(304)	(1,373)
Current portion of long-term debt		(327)
Accounts payable and accrued liabilities	(3,536)	(7,739)
Due to affiliates	(108)	(7,320)
Income taxes payable	(69)	(2,596)
Long-term debt		(1,766)
Minority interests	387	(741)
	12,835	6,014
Goodwill	89	3,914
	$12,924	$9,928

In connection with the Jewelsmiths, Inc. acquisition, Kay is obligated to issue up to 200,000 additional shares based on Jewelsmiths' earnings in excess of an agreed minimum for the three years ended December 31, 1975. The Bowater Corporation Limited (Ralli's parent) has an obligation to purchase Kay shares from the former shareholders of Jewelsmiths at any time from December 31, 1974 to January 10, 1976 at $10 per share.

In connection with the acquisition of Union Stock Yards Company of Omaha (Limited), Ralli has agreed to purchase the balance of the Kay shares issued and retained by the original owners, at a price of $14 per share, during the thirty day period beginning March 6, 1974. Kay paid Ralli $250,000 to assume such economic risk.

The pro forma results of continuing operations and per share information set forth below assume the acquisitions of present operations had occurred on January 1, 1972.

	Year ended December 31			
	1973	1972	1973	1972
	(in thousands)		(per common share)	
Revenues	$235,628	$177,838		
Income from continuing consolidated operations	$ 2,099	$ 2,022	$.38	$.37
Provision for specific inventory losses, net of income taxes		(689)		(.13)
Equity in earnings (loss) of unconsolidated affiliates, less allocated interest, net of income taxes	706	(222)	.13	(.04)
Extraordinary items, net of income taxes		273		.05
Net income	$ 2,805	$ 1,384	$.51	$.25
Pro forma common shares deemed outstanding	5,450	5,450		

3. Investments In and Advances to Unconsolidated Affiliates

	Mercantile Industries	Metal Traders
Common stock	$10,294,000	$1,315,000
Preferred stock	3,379,000	
Warrants	1,188,000	
Advance	2,750,000	
	17,611,000	1,315,000
Net income for the nine months ended December 31, 1973 attributable to Kay	315,000	1,281,000
Amortization of goodwill	(104,000)	
Adjustments relating to revaluation of net assets	44,000	9,000
Equity in earnings of unconsolidated affiliates	255,000	1,290,000
Balance at December 31, 1973	$17,866,000	$2,605,000

No provision has been made for income taxes on unremitted earnings of Mercantile and Metal Traders because the earnings of Mercantile and Metal Traders are intended to be permanently reinvested.

The advance to Mercantile, due in January 1979, bears interest at a rate equal to 117.5% of the prime rate, plus 1% through December 31, 1973; 2% from January 1, 1974 to December 31,1974; 3% from January 1, 1975 to April 1, 1975; and 2% from April 2, 1975 until maturity.

Interest on debt incurred in connection with the acquisition of Mercantile's common stock, preferred stock and warrants has been deducted from equity in earnings of unconsolidated affiliates.

See pages 22 to 32 for the financial statements of Mercantile for the two years ended December 31, 1973.

The results of operations of Mercantile

for the nine months ended December 31, 1973 were:

Revenues:	
Finance	$15,007,000
nsurance	7,265,000
Investment income	425,000
	22,697,000
Expenses:	
Finance	6,387,000
Insurance	7,004,000
Interest	8,046,000
Minority interests	129,000
	21,566,000
Income before income taxes	1,131,000
Provision for income taxes	532,000
Net income	599,000
Preferred stock cash dividend	114,000
Net income attributable to common stock	$ 485,000

Metal Traders' financial position at December 31, 1973 was: current assets $24,689,000; total assets $25,792,000; and net worth $5,767,000. The results of operations for the nine months ended December 31, 1973 were:

Gross profit on commodity trading	$6,702,000
General and administrative expenses	1,980,000
Income before provision for income taxes and extraordinary item	4,722,000
Provision for income taxes	2,159,000
Income before extraordinary item	2,563,000
Extraordinary item relating to the utilization of foreign tax credits and operating loss carryforwards	700,000
Net income	$3,263,000

4. Notes Payable to Banks

Inventories of $26,823,000 and $5,106,000 and cash and accounts receivable of $10,815,000 and $8,618,000 were pledged as collateral for notes payable to banks of $25,939,000 and $13,316,000 at December 31, 1973 and 1972, respectively. Unused lines of credit amounted to $20,585,000 at December 31, 1973.

5. Due to Affiliates

Due to affiliates at December 31, 1972 includes $9,848,000 due to Ralli bearing interest at 7½% per annum. During 1973 Ralli converted $5,000,000 of its 7½% demand note into a subordinated note due in April 1978 bearing interest at 9% per annum and $2,750,000 into an obligation due in July 1975 bearing interest at 2% above the prime rate.

6. Long-Term Debt

	1973	1972
4½%-6% mortgage notes, due monthly to 1977	$ 167,000	$ 192,000
Senior notes due 1975	6,590,000	
6½% registered subordinated notes due 1977	2,703,000	
5½%-6% unsecured notes, due in varying amounts to 1978	124,000	299,000
5½% subordinated debenture bonds, due annually to 1981	1,099,000	1,275,000
	10,683,000	1,766,000
Less current portion	1,097,000	333,000
	$ 9,586,000	$1,433,000

During 1973, Kay issued to a bank $6,590,000 of senior notes bearing interest at a rate equal to 117.5% of the bank's prime rate plus 1% through December 31, 1973; 2% from January 1, 1974 through December 31, 1974; and 3% from January 1, 1975 until maturity. The notes are secured by Kay's ownership in Union and Mercantile common shares, and Mercantile warrants and preferred stock. The terms of the note agreement include a provision that Kay may not pay dividends in excess of one-half of cumulative net income subsequent to December 31, 1972. Accordingly, $1,070,000 of retained earnings at December 31, 1973 was available for payment of dividends. Kay may borrow an additional $5,410,000 on the same terms for the acquisition of additional securities of Mercantile. A fee of 1% per annum is payable on the amount not borrowed.

The 6½% registered subordinated notes contain sinking fund provisions requiring the payment of 31.25% of the principal on April 1, 1974, 25% on April 1, 1975 and 1976 and 18.75% on April 1, 1977.

The approximate amount of maturities of long-term debt for the four years ending December 31, 1978 are: 1975—$7,500,000; 1976—$985,000; 1977—$706,000; and 1978—$176,000.

7. Income Taxes

As a result of examinations of Kay Jewelry Stores' federal income tax returns for prior years, the Internal Revenue Service has proposed substantial assessments. Kay is contesting certain of these assessments. In the opinion of management and its tax advisors, the reserve for income taxes payable at December 31, 1973 is adequate.

8. Pension Plans

Kay has several plans covering eligible employees. Pension expense, including amortization of past service costs, for the two years ended December 31, 1973 were $216,000 and $144,000, respectively. Effective January 1, 1974, Kay's board of directors approved the consolidation of existing plans into a new plan with increased benefits. The annual cost of the new plan is estimated to be $530,000. Unfunded past service cost under the new plan, estimated to be $1,370,000, will be amortized over 40 years.

9. Earnings Per Share

The average number of common shares deemed outstanding for the years ended December 31, 1973 and 1972 is the weighted average of 2,900,000 shares which were exchanged for the Ralli Subsidiaries and have been deemed outstanding for both years, the 1,365,000 shares which were outstanding prior to the exchange for the Ralli Subsidiaries and deemed outstanding since July 31, 1972, and the shares issued in connection with other acquisitions from their respective dates (see Note 2). No material dilutive effect on earnings per share arises from Kay's stock options outstanding, the contingent shares which may be issued in connection with the purchase of Jewelsmiths, or Mercantile's convertible debentures and preferred stock, warrants and stock options.

10. Stock Options

In 1972 the stockholders approved a program to grant to directors, officers and other employees options to purchase up to 10% of Kay's common shares outstanding, but not to exceed 482,000 shares. Option prices are determined by the board of directors but may not be less than 60% of the fair market value on the date of grant. Fifty percent of the shares granted become exercisable on January 1, 1974 and the balance on January 1, 1975. The options expire on December 31, 1977. In November 1973, the board of directors allowed option holders to cancel their options and to receive new options to purchase a similar number of Kay shares at $6 per share (equal to the market price on the day of grant).

Details of options for the two years ended December 31, 1973 are:

	Shares	Option price Per share	Option price Total	Market value date of grant Per share	Market value date of grant Total
Balance at December 31, 1972 (all granted or assumed during 1972)	234,400	$7.63 to 9.00	$2,106,000	$7.63 to 11.00	$2,569,000
Granted in 1973	136,350	6.00 to 9.00	1,063,000	6.00 to 11.00	1,108,000
Cancelled in 1973	(30,750)	9.00	(277,000)	11.00	(338,000)
Special cancellation of options	(309,500)		(2,704,000)		(3,151,000)
Reissuance of options	309,500	6.00	1,857,000	6.00	1,857,000
Balance at December 31,1973 (2,900 shares exercisable)	340,000		$2,045,000		$2,045,000

During 1972 Ralli granted options to certain Kay officers, directors and employees to purchase 109,450 (106,750 outstanding at December 31, 1973) of its Kay shares at $3 per share. The difference between the option price and the fair market values at the dates the grants were effected (approximately $200,000) has been recorded as a capital contribution reduced by the deferred compensation which is being amortized over the term of the options.

11. Commitments and Contingent Liabilities

At December 31, 1973 letters of credit outstanding were $21,214,000. Net rental expense for the two years ended December 31, 1973 and 1972 was $4,328,000 and $1,448,000, respectively. Minimum rental commitments are:

	Stores	Office space	Total
1974	$ 2,556,000	$ 398,000	$ 2,954,000
1975	2,625,000	396,000	3,021,000
1976	2,500,000	334,000	2,834,000
1977	2,158,000	325,000	2,483,000
1978	1,994,000	338,000	2,332,000
1979-1983	7,961,000	1,735,000	9,696,000
1984-1988	4,934,000	1,692,000	6,626,000
1989-1993	1,062,000	961,000	2,023,000
After 1993	35,000		35,000
	$25,825,000	$6,179,000	$32,004,000

ARTHUR YOUNG & COMPANY
277 PARK AVENUE
NEW YORK, NEW YORK 10017

Report of Certified Public Accountants

To The Board of Directors
Kay Corporation

We have examined the accompanying consolidated balance sheet of Kay Corporation at December 31, 1973 and 1972 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

With respect to Kay Corporation's investment at December 31, 1973 of $17,866,000 in Mercantile Industries, Inc., an unconsolidated subsidiary, and equity of $255,000 in its net income for the nine months then ended and its investment at December 31, 1973 of $2,605,000 in Metal Traders, Inc., an affiliate, and equity of $1,290,000 in its net income for the nine months then ended, (see Note 3), we have received the reports of other independent public accountants on their examinations of the financial statements of such companies. Our opinion expressed herein, insofar as it relates to the separate financial statements of Mercantile Industries, Inc. and Metal Traders, Inc. included or summarized herein and to their net income for the nine months ended December 31, 1973 included in Kay Corporation's investment and net income, is based solely upon the reports of the other independent public accountants.

In our opinion, based on our examination and the reports of other independent public accountants referred to above, the statements mentioned above present fairly the consolidated financial position of Kay Corporation at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

March 21, 1974

Arthur Young & Company

Five Year Summary of Operations
Kay Corporation

	Year ended December 31,				
	1973	**1972**	**1971**	**1970**	**1969**
Revenues (000)	**$226,572**	$137,181	$102,936	$102,151	$87,969
Income from consolidated operations before income taxes (000)	**3,934**	3,633	991	944	1,025
Provision for income taxes (000)	**2,000**	1,875	463	499	510
Income after income taxes from consolidated operations (000)	**1,934**	1,758	528	445	515
Equity in earnings of unconsolidated affiliates, less allocated interest, net of income taxes (000)	**1,292**				
Net income (000)	**$ 3,226**	$ 1,758	$ 528	$ 445	$ 515*
Earnings per share	**$.62**	$.50	$.18	$.15	$.18
Average number of common shares outstanding	**5,213,000**	3,502,000	2,900,000	2,900,000	2,900,000

*includes extraordinary item of $56,000 ($.02 per share)

Mercantile Industries, Inc.
Consolidated Financial Statements

Consolidated Balance Sheet

Mercantile Industries, Inc. (71% owned)

Assets

	December 31 1973	1972 (Restated)
Cash and restricted cash (Note 2)	$ 17,710,508	$ 18,991,119
Marketable securities, principally owned by insurance subsidiaries:		
Bonds, at amortized cost (Market—$10,274,106 and $9,731,388, respectively)	10,732,101	9,831,262
Common and preferred stocks, at cost (Market—$236,334 and $214,682, respectively)	253,935	192,530
	10,986,036	10,023,792
Finance receivables (Notes 2 and 3)	143,326,000	122,411,421
Less:		
Unearned finance charges	14,525,223	16,047,245
Reserve for losses	4,075,000	4,200,000
Special reserve for losses (Note 1)	167,290	489,949
	18,767,513	20,737,194
Net finance receivables	124,558,487	101,674,227
Estimated precomputed finance charges on simple interest loans, net (Note 1)	1,346,396	749,180
Insurance premiums, net of commissions, and other receivables	3,963,591	1,564,118
Repossessed collateral and residual value of leased equipment	937,674	570,620
Prepaid acquisition expenses applicable to unearned insurance premiums	1,799,198	1,470,222
Investment in Bro-Dart Industries common stock (Market—$55,000 and $130,000, respectively)	450,000	450,000
Other assets	1,437,741	1,294,814
	$163,189,631	$136,788,092

(See accompanying notes to financial statements)

Liabilities and Shareholders' Equity

	December 31 1973	1972 (Restated)
Liabilities		
Short-term notes payable, less prepaid interest:		
Bank loans (Note 2)	$ 55,104,026	$ 31,687,042
Commercial paper	12,442,184	10,583,149
Revolving credit agreement (Note 4)		3,872,022
	67,546,210	46,142,213
Dealers' reserves	6,674,567	847,142
Unearned insurance premiums and commissions	5,619,516	4,408,827
Reserve for insurance claims and claim expenses	5,157,056	3,100,747
Accounts payable and accrued expenses	3,282,437	3,203,327
Income taxes payable (Note 10)	1,927,236	1,084,831
Long-term debt (Note 5)	57,621,914	62,274,210
Total liabilities	147,828,936	121,061,297
Minority interest in net assets of subsidiary (Note 6)	2,902,500	3,130,000
Shareholders' equity:		
Capital stock:		
Preferred (Notes 7 and 8)	3,801,100	3,807,500
Common (Notes 8 and 9)	2,073,866	2,072,424
Additional paid-in capital (Note 8)	2,486,221	2,477,752
Retained earnings, per accompanying statement (Note 11)	4,264,885	4,375,796
	12,626,072	12,733,472
Less—Treasury common stock, 25,964 and 23,364 shares, respectively, at cost	(167,877)	(136,677)
Total shareholders' equity	12,458,195	12,596,795
Commitments (Note 13)		
	$163,189,631	$136,788,092

Consolidated Statement of Income

Mercantile Industries, Inc.
(71% owned)

	Year ended December 31 1973	1972 (Restated)
Revenues:		
Finance charges, interest and other finance income, including profit participations of $253,000 and $339,092, respectively	$19,231,764	$16,266,048
Insurance premiums earned	8,900,775	8,220,400
Investment income, net—insurance operations	580,714	487,098
Other income—insurance operations, including a gain on sale of insurance agencies of $165,497 in 1973	528,389	493,005
	29,241,642	25,466,551
Expenses:		
Finance operating expenses	5,167,449	4,905,745
Provision for losses on receivables	3,239,398	2,635,496
Interest expense	10,082,848	6,902,004
Insurance claims and claim expenses (Note 14)	6,843,315	3,969,256
Commissions and other insurance operating expenses	3,634,810	3,632,939
	28,967,820	22,045,440
Operating income before income taxes	273,822	3,421,111
Provision for income taxes (Note 10)	41,000	1,580,000
Operating income	232,822	1,841,111
Net realized gain (loss) on sale of securities	(18,308)	20,282
Minority interest (Note 6)	(173,317)	(186,767)
Net income for the period	$ 41,197	$ 1,674,626
Earnings (loss) per share of common stock (Note 15):		
Primary	$ (.11)	$ 1.43
Assuming full dilution	(.11)	1.17

Consolidated Statement of Retained Earnings

Mercantile Industries, Inc.
(71% owned)

	1973	1972
Balance, beginning of period:		
As previously reported		$4,009,990
Adjustment for cumulative effect on prior periods of applying retroactively a change in certain methods of income recognition (Note 1)		(634,916)
As restated	$ 4,375,796	3,375,074
Net income for the period	41,197	1,674,626
Cash dividends paid—Preferred stock	(152,108)	(167,984)
Common stock dividend—4% in stock		(505,920)
Balance, end of period (Note 11)	$ 4,264,885	$ 4,375,796

(See accompanying notes to financial statements)

Consolidated Statement of Changes in Financial Position

Mercantile Industries, Inc.
(71% owned)

	Year ended December 31 1973	1972 (Restated)
Financial resources were provided by:		
Net income	$ 41,197	$ 1,674,626
Depreciation and amortization	172,664	186,925
Deferred income taxes	842,000	562,000
Minority interest in net income of Financial	173,317	186,767
Provision for losses on receivables	3,239,398	2,635,496
Funds provided by operations	4,468,576	5,245,814
Long-term financing:		
Senior		17,500,000
Subordinated	2,750,000	2,975,000
Liquidation of repossessed collateral		563,547
Increase in unearned insurance premiums, commissions, and claim reserves	3,266,998	291,924
Issuance of common stock	9,911	35,963
Issuance of warrants		25,000
Increase in short-term notes payable	21,403,997	
Increase in dealers' reserves	5,827,425	
	$37,726,907	$26,637,248
Financial resources were used for:		
Increase in finance and insurance receivables	$28,523,131	$ 594,967
Reduction in short-term notes payable		8,864,217
Payment of long-term debt:		
Senior	5,550,756	9,231,348
Subordinated	1,851,540	1,765,240
Redemption of preferred stock		500,000
Preferred stock dividends:		
Mercantile	152,108	167,984
Financial	173,317	186,767
Reduction of minority interest	227,500	227,500
Acquisition of treasury common stock	31,200	
Increase in estimated precomputed finance charges on simple interest loans, net	597,216	102,194
Increase in repossessed collateral	414,291	
Increase in prepaid acquisition expenses	328,976	59,349
Decrease in dealers' reserves		434,503
Other	195,239	645,643
Increase (decrease) in cash and marketable securities	(318,367)	3,857,536
	$37,726,907	$26,637,248

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements

Mercantile Industries, Inc.
(71% owned)

1. Summary of Significant Accounting Policies:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Mercantile Industries, Inc. (Mercantile) and its subsidiaries, all wholly-owned, except Mercantile Financial Corporation (Financial) in which Mercantile owned all of the outstanding stock other than certain preferred and preference stock, see Note 6. In the year ended December 31, 1973, Kay Corporation, a majority owned subsidiary of Bowater-Ralli America Inc., acquired approximately 71% of Mercantile common stock from other shareholders. Bowater-Ralli America Inc. is wholly-owned by The Bowater Corporation Limited, a United Kingdom company.

Accounting policies of finance subsidiaries

Change in accounting methods:

The American Institute of Certified Public Accountants has recently published guides for finance companies' (Finance Guide) and life insurance companies' (Life Insurance Guide) financial reporting which are effective for periods subsequent to December 31, 1973. Financial adopted, effective as of December 31, 1973, certain changes in order to conform its accounting policies to those recommended in the industry guides which result in changes in Financial's previous methods of recording finance charges, insurance commissions and credit life insurance premiums as income, as described below. Such changes in accounting policies were retroactively applied and resulted in the following:

	Increase 1973	1972
Revenues	$861,662	$464,715
Provision for losses on receivables	475,000	125,000
Income before income taxes	386,662	339,715
Provision for income taxes	194,000	171,000
Net income	$192,662	$168,715
Primary earnings per share	$.19	$.15

The balance of retained earnings at December 31, 1971 has been reduced by the cumulative effect thereon of $634,916 (net of income taxes of $640,000) in applying retroactively the revised accounting methods.

The balance sheet at December 31, 1972 has been reclassified in accordance with the presentation recommended in the guides.

Recognition of finance revenues

As permitted by the Finance Guide, finance charges on receivables other than rediscounts and bulk purchases are credited to income as follows:

(a) A rate of 11% of the finance charges on receivables acquired is immediately credited to income to offset an equal amount of provision for the estimated losses recorded on such loans in the month of acquisition.

Rates of 2%, 1½% and 2½% of finance charges are immediately credited to income to offset the estimated direct cost of acquiring commercial, small business and consumer loans, respectively.

(b) A portion of the unearned finance charges equal to the anticipated servicing and collection costs to be incurred during the terms of such loans is credited to income beginning in the month following acquisition on the pro rata (straight-line) collection method with respect to all such loans other than industrial time sales loans and on the pro rata accrual method with respect to industrial time sales loans (for which repayment, late charges and extension fees are guaranteed by third party dealers or manufacturers).

(c) The remaining unearned finance charges are credited to income on the following basis (1) discounted loans—sum of the digits collection method with respect to all such loans other than industrial time sales loans and the sum of the digits accrual method with respect to industrial time sales loans, with one-half month's income recognized in the month of acquisition; (2) simple interest loans—effective yield collection method.

The estimated precomputed finance charges on simple interest loans included in the balance sheet represent the balance of interest computed in accordance with (a) above, less that portion of interest received which is to be recognized as income over the remaining terms of the loans on the basis described in (b) above.

On certain discounted consumer receivables acquired in a bulk purchase and in the process of liquidation, the finance charges and the special loss reserve, see below, in excess of the estimated amount of losses on the collection of such accounts are credited to income in amounts proportionate to the liquidation of such receivables.

On lease contracts receivable, Financial records a residual value of no more than 3% of the cost of the equipment leased which creates additional unearned finance charges that are credited to income as described above.

Late charges are credited to income as collected. Extension fees of less than $200 are credited to income as collected; all other extension fees are added to unearned finance charges which are credited to income over the revised terms of the loans.

Rebates of finance charges are charged to income in the month rebated and the remaining finance charges are credited to income.

Provision for losses on receivables and write-off policy:

The reserve for losses on receivables is reviewed at the close of each accounting period and the provision for losses recorded at the date of loan acquisition is increased, as necessary, to reflect in the loss reserve any estimated additional amount of loss to be incurred in liquidation of the receivables outstanding at such time. Such adjustments are not offset by recording any additional revenue.

Accounts receivable, rediscount and other commercial loans and lease contracts receivable are written down to their estimated realizable value or the remaining balances are charged off against the reserve for losses after considering the value of the collateral pledged, the amount of customers' equity or dealers' reserves withheld, the financial condition of the financed company, recourse arrangements and guarantees by third parties, and other pertinent factors. Direct consumer and small business loans are charged off after considering the value of the underlying collateral, the borrower and other pertinent factors. However, all direct consumer and small business loans are charged off 1) no later than one year after the last payment of principal or interest has been received even though the underlying collateral has some realizable value, or 2) when the borrower is adjudged bankrupt and has not reaffirmed his loan, unless litigation is pending and collection appears feasible in which case the loan is written down to the estimated realizable value of the collateral.

Recognition of credit insurance revenues:

Commissions received in advance on credit life and health and accident insurance (placed with nonaffiliated life insurance companies) on consumer and small business loans are credited to income on the sum of the digits accrual method. Pursuant to the life insurance guide, credit life and health and accident insurance premiums are credited to income and the related prepaid servicing costs are charged to income on the sum of the digits accrual method. Claims and claim adjustment expenses are charged to income as incurred. Rebates of insurance premiums and commissions are charged to income and the remaining unearned premiums and commissions are credited to income in the month of rebate.

Special reserve for losses:

A special reserve was established in October 1970, primarily for estimated losses on the collection of certain receivables purchased.

Deferred income taxes:

Deferred income taxes relate primarily to variances as between financial presentation and income tax reporting in accounting for leasing transactions and the recognition of finance charges as income on certain discounted loans.

Employee benefit plans:

Financial has a non-contributory pension plan and a profit-sharing plan (with provision for voluntary employee contributions) covering substantially all employees, and it is the policy to fund pension and profit-sharing costs accrued subject to tax and actuarial considerations. Financial provided $117,000 and $91,000 for the estimated cost of its pension plan for the years ended December 31, 1973 and 1972, respectively. No provision for contribution was made under the terms of the profit-sharing plan for the year ended December 31, 1973. For the year ended December 31, 1972, $100,000 was provided under the plan. At December 31, 1973 and 1972, there were no unfunded vested benefits or past service liability.

Accounting policies of casualty insurance subsidiaries:

The accounts of Parliament National Corporation (Parliament) and its subsidiaries, primarily property and casualty insurers, are stated in conformity with generally accepted accounting principles, which differ in some respects from regulatory reporting requirements. The principal differences are that, under generally accepted accounting principles, prepaid acquisition expenses and nonadmitted assets are recorded and investments in stocks are recorded at cost (all of which give rise to deferred income taxes in recognition of timing differences between reporting such items for income tax and financial statement purposes) and statutory claim reserves in excess of case basis claim reserves are restored to retained earnings.

2. Bank Lines of Credit and Compensating Balances:

At December 31, 1973, bank lines of credit aggregating $98,510,000 were available to Financial (of which $6,250,000 were also available to Mercantile) under which notes payable of $55,385,000 including $4,200,000 payable by Mercantile were outstanding. The use of these lines is restricted to the extent that 1) Financial and Mercantile together are required periodically to liquidate their indebtedness to individual banks for generally 90 days each year and 2) under the terms of its long-term loan agreements Financial is required to maintain unused bank lines of credit equal to its commercial paper outstanding and long-term debt due within one year which aggregated $16,147,125 at December 31, 1973.

Under the terms of long-term debt agreements the aggregate amount of outstanding notes under bank lines of credit, commercial paper, long-term senior notes and certain other senior liabilities of Financial is limited to a multiple of the sum of its subordinated debt outstanding and shareholders' equity less certain defined assets. Under this restriction, Financial's ability to borrow such additional senior funds was limited to $16,500,000 at December 31, 1973.

Under the terms of bank line credit agreements, Financial and Mercantile borrow at the prime rate of interest and, beginning in 1973, maintained on deposit with banks compensating balances in most instances of 5% or 10% of authorized lines when such lines are not in use and 20% when such lines are in use, and in some other instances, 15% at all times. Prior to 1973, Financial and Mercantile maintained at all times 15% compensating balance deposits on all bank lines of credit. Mercantile also maintains a compensating balance equal to 15% of its long-term notes outstanding of $6,750,000 at December 31, 1973, see Note 5, under the terms of the note agreement. Compensating balances and usage restrictions increase the effective rates of interest on the related borrowings. Cash balances reflected in the balance sheets at December 31, 1973 and 1972 include compensating balances of $15,843,000 and $15,572,000, respectively.

Short-term notes payable to banks at December 31, 1973 include $275,000 of a Parliament subsidiary's debt secured by a pledge of all its premium finance receivables.

3. Finance Receivables:

Contractual maturities of outstanding finance receivables at December 31, 1973 are as follows:

	Total	1974	1975	1976 (000's omitted)	1977	1978	After 1978
Commercial loans and lease contracts receivable:							
Instalment (a)	$ 61,518	$27,795	$16,585	$ 9,367	$ 5,828	$1,588	$355
Non-instalment (b)	4,204	2,162	1,364	72	336	87	183
Small business loans (a)	24,110	6,987	5,824	4,975	3,877	2,447	
Consumer instalment loans (a) (f)	14,780	5,371	3,651	2,946	2,052	760	
	104,612	$42,315	$27,424	$17,360	$12,093	$4,882	$538
Accounts receivable (net of $11,129,000 customers' equity) and inventory loans (c)	15,332						
Rediscount loans (net of $4,689,000 customers' equity) (d)	4,361						
Other (e)	19,021						
	$143,326						

(a) The original terms of these loans generally do not exceed 60 months.

(b) The original terms of these loans generally do not exceed 24 months.

(c) Accounts receivable loans are due as the underlying invoices pledged become due, and inventory loans generally are due on demand.

(d) Rediscount loans are due as the instalments on the loans pledged become due (generally 36 months or less). The maturities of these loans are not available because they are generally serviced and collected by Financial's clients.

(e) Includes $7,872,000 of non-instalment loans due on demand, and $10,370,000 of direct consumer instalment loans acquired in a bulk purchase in which Financial has a net investment of $4,454,000. The maturities of the loans are not readily available, since the servicing and collection of such loans are being handled by the seller. However, under the terms of the purchase agreement, Financial's net investment in such loans is to be repaid in 60 months or less.

(f) Experience of Financial has shown that many direct consumer loans will be renewed prior to contractual maturity dates. For the year ended December 31, 1973 cash collections were 49% of the average outstanding balance.

4. Revolving Credit Agreement:

Under the terms of a revolving credit agreement, Financial may borrow up to $4,000,000 at 1% above the prevailing Eurodollar interest rate to September 1974. No borrowings under such agreement were outstanding at December 31, 1973. The $4,000,000 notes outstanding at December 31, 1972 are reduced by prepaid interest.

5. Long-Term Debt Including Amounts Due Within One Year:

	December 31, 1973	1972
Long-term debt of subsidiaries (including subordinated debt of $13,937,000 and $15,644,000) bearing interest at rates from 5⅛% to 9⅞% (average rate 8.2%), due in varying amounts to 1987 (a)	$46,698,864	$53,206,620
Long-term debt of Mercantile:		
Notes due in varying amounts to 1979 with interest at 1¾% above the prevailing prime rate of interest (b), see Note 2	6,750,000	7,500,000
6% subordinated debentures due in varying amounts to 1977	551,250	692,250
7% convertible capital debentures due in equal annual instalments 1976 to 1979	871,800	875,340
Subordinated capital note due in 1979 (c)	2,750,000	
	10,923,050	9,067,590
Total (d)	$57,621,914	$62,274,210

(a) In May 1972, Financial received $3,000,000 from the issuance of its $2,000,000, 9⅞% senior subordinated note and $1,000,000, 9¾% junior subordinated notes due in equal annual instalments from 1978 to 1987 and the issuance of warrants to purchase 25,000 shares of Mercantile common stock, see Note 9.

In September 1972, Financial received $8,500,000 from the issuance, at par, of its 8⅝% senior notes due in equal annual instalments from 1978 to 1987.

In December 1972, Financial received $4,000,000 from the issuance of its 2% over the prevailing prime interest rate note (with a maximum average interest rate of 8¾%) due in varying amounts from 1981 to 1983 and received $2,000,000 from the issuance of its 118% of ½% over the prevailing prime interest rate note (with a maximum average interest rate of 8½%) due in varying amounts from 1978 to 1979.

At December 31, 1972, senior notes include a non-interest bearing note of $3,208,600, less unamortized discount, imputed at an interest rate of 8%.

(b) In June 1972, Mercantile refinanced its $4,500,000 outstanding note due in various amounts to 1978 into a $7,500,000 note due in various amounts to 1979. All of the shares of common stock of Parliament and its subsidiary, Parliament Insurance Company, are held by the lender pursuant to several covenants in the loan agreement.

(c) In September and December 1973, Mercantile received a total of $2,750,000 from Kay Corporation, the 71% parent of Mercantile, for the issuance of its subordinated capital notes at par, with interest at the sum of 117.5% of the prime rate of interest plus 1% to December 31, 1973, 2% in 1974, 3% to April 1, 1975 and 2% to January 2, 1979.

(d) All long-term debt is redeemable at various times at up to 109% of the face amount of debt. The 7% capital debentures are convertible into common stock of Mercantile at the rate of $17.40 per share to May 31, 1975. Such conversion price is subject to adjustment in the case of stock dividends on common stock, etc. The aggregate annual maturities of long-term debt of Mercantile and its subsidiaries for the five years subsequent to December 31, 1973 are as follows:

Year ending December 31,

1974	$4,777,000	1977	$5,088,000
1975	4,665,000	1978	5,158,000
1976	6,157,000		

6. Minority Interest in Net Assets of Subsidiary:

Minority interest in the net assets of Financial is recorded at the par value, $100 per share, of issued and outstanding 5½% to 6% cumulative preferred and preference stock not owned by Mercantile of $2,902,500 and $3,130,000 at December 31, 1973 and 1972, respectively. The preferred stock has preference as to dividends and in liquidation over preference and common stock. The preference stock has similar priority over common stock. Each series of preferred and preference stock is callable at various prices up to $104 per share at December 31, 1973 and is redeemable at par through sinking fund provisions. Preferred and preference stock annual sinking fund requirements are payable $227,500 in 1974, $432,500 in 1975 and 1976 and $285,000 in 1977 and 1978.

7. Preferred Stock:

Mercantile's certificate of incorporation authorizes 250,000 shares of no par value preferred stock issuable in series at varying dividend rates, liquidating values and redemption values. The preferred stock has preference as to dividends and in liquidation over common stock and class B common stock of Mercantile.

At December 31, 1973, 38,011 shares of series B $4 cumulative dividend, convertible, $100 liquidation value preferred stock were outstanding. None of the series B preferred stock may be redeemed by Mercantile prior to July 1, 1974, but may be redeemed in the year ending June 30, 1975 at $105 per share and thereafter at a declining rate of $1.00 per annum to $100 at July 1, 1979 and thereafter. The shares are convertible into common stock prior to July 1, 1980 at $13.74 per share of common stock. Such conversion price is subject to adjustment in the case of stock dividends on common stock, etc.

The holder of Mercantile's series A preferred stock exercised its right to require Mercantile to redeem all of the 5,000 outstanding shares of such stock at par value in June 1972.

8. Common Stock and Additional Paid-in Capital:

Mercantile's certificate of incorporation authorizes the issuance of 4,000,000 shares of common stock, $2 par value and 1,000,000 shares of class B common stock, $2 par value.

None of the class B common stock was reserved for issuance, issued or outstanding at December 31, 1973. Shares of the common stock issued and outstanding at December 31, 1973 and 1972 and transactions affecting common stock and related accounts in the years then ended are summarized as follows:

	Common stock		
	Shares issued and outstanding	Amount	Additional paid-in capital
Balance, December 31, 1971	994,449	$1,988,898	$1,999,503
Issuance of 4% stock dividend on common stock	38,524	77,048	423,764
Employee stock options exercised	1,250	2,500	5,698
Conversion of 229 shares of series B preferred stock and $4,890 par value of 7% debentures	1,989	3,978	23,787
Issuance of warrants to purchase 25,000 shares of common stock, see Note 5			25,000
Balance, December 31, 1972	1,036,212	2,072,424	2,477,752
Conversion of 64 shares of series B preferred stock and $3,540 par value of 7% debentures	721	1,442	8,469
Balance, December 31, 1973	1,036,933	$2,073,866	$2,486,221

At December 31, 1973 a total of 747,671 shares of common stock, authorized but unissued, was reserved for the following purposes:

(a) 345, 915 shares for the exercise of outstanding stock purchase warrants;

(b) 74,930 shares for the exercise of

options granted or available for grant under employee stock option plans;

(c) 276,720 shares for issuance to holders of series B preferred stock convertible into common stock; and

(d) 50,106 shares for issuance to holders of 7% capital debentures convertible into common stock.

9. Stock Options and Purchase Warrants:

Mercantile's 1967 and 1966 qualified stock option plans, as amended in 1971, authorize the issuance of options to salaried officers and key employees to purchase shares of common stock at 100% of the fair market value on the date the options are granted. Options granted or available for grant are not exercisable after five years from the date of grant, and the optionee is required to agree to remain in the employ of Mercantile for at least two years after the date of grant. All options are cancelled upon termination of employment.

At December 31, 1973, warrants and employee stock options outstanding (adjusted for the stock dividends on common stock) are as follows:

	Number of shares of common stock which may be purchased	Purchase price per share	Exercisable to
Warrants issued in (a):			
December, 1964	59,524	$13.02	December 31, 1974
March, 1969 and January, 1970	42,000	12.50	April 1, 1981
December, 1969	218,380	10.99	December 1, 1976
May, 1972, see Note 5	26,011	15.07	June 1, 1975
		16.58	June 1, 1982
	345,915		
Employee stock options (b)	51,241	9.62-12.13	Various dates
	397,156		

(a) All warrants are subject to adjustment under terms of antidilution provisions.

(b) At December 31, 1973, all of the above options are exercisable at an average price of $10.39 per share. Options to purchase 23, 689 shares and 17,905 shares at December 31, 1973 and 1972, respectively, were available for grant. In 1973, no options were granted or exercised, and options to purchase 5,784 shares were terminated. In 1972, options to purchase 14,850 shares at $10.00 per share were granted; options to purchase 1,250 shares were exercised, and options to purchase 9,027 shares were terminated.

10. Income Taxes:

The provisions for income taxes for the years ended December 31, 1973 and 1972 were increased $842,000 and $562,000 for income (net) recorded in the respective periods which will be included in subsequent periods' taxable income. Income taxes payable include deferred taxes of $1,873,000 and $1,031,000 at December 31, 1973 and 1972, respectively.

The differences between the provisions for income taxes for the years ended December 31, 1973 and 1972 and the amount of income computed by applying the federal income tax rate of 48% to operating income before income taxes for the respective years are primarily due to state income taxes, federal long-term capital gains tax rates and tax exempt interest.

11. Dividend Restrictions:

Restrictive covenants as to amounts available for payment of dividends are contained in various long-term debt agreements of Mercantile and Financial. Under the most restrictive of Mercantile's various agreements none of the consolidated retained earnings was available for the payment of cash dividends on common stock at December 31, 1973.

12. Rent Expense:

The aggregate rent expense for all office space, furniture, fixtures and equipment leased was $339,732 and $339,210 for the years ended December 31, 1973 and 1972, respectively.

13. Commitments:

The Company leases a substantial amount of its office space and some equipment for terms ranging from one to ten years. Based on leases presently in force, the payments to be made in each of the periods indicated are as follows:

Year ending December 31,	Office space	Equipment	Total
1974	$173,000	$70,000	$243,000
1975	158,000	70,000	228,000
1976	129,000		129,000
1977	41,000		41,000
1978	12,000		12,000
1979-1983	5,000		5,000

14. Changes in Estimates of Insurance Claim and Claim Adjustment Reserves:

Estimates of claim adjustment expenses and losses on reported claims are revised as additional information becomes available. Such changes and any variances between related claim reserves and actual payments are included in the results of operations in the period of revision or payment. Mercantile's results of operations for the years ended December 31, 1973 and 1972 include claim adjustment expenses and losses incurred of approximately $714,000 and $86,000, respectively, applicable to claims incurred prior to December 31, 1972 and 1971, respectively.

15. Earnings Per Share:

Primary earnings per common share have been determined by reducing net income for the series A and B preferred stock dividend requirements of $152,108 and $167,984, for the years ended December 31, 1973 and 1972, respectively, and are based on the weighted average number of common shares outstanding of 1,011,468 shares in 1973 (common equivalent shares are anti-dilutive) and common and common equivalent shares outstanding of 1,075,793 (adjusted for the 4% common stock dividend paid in 1972) shares in 1972. Common equivalent shares consist of the average number of common shares issuable upon exercise of dilutive warrants and employee stock options issued by Mercantile after May 31, 1969, less the common shares that theoretically could have been repurchased with the proceeds available from the assumed exercise of those warrants and options or, where appropriate, using the proceeds to retire callable preferred stock, with net income applicable to common stock being increased by the related dividends thereon.

Fully diluted earnings per common share assumes, where dilutive in addition to the above, that the weighted average number of 7%, $100 par value debentures and series A and series B preferred shares outstanding for the year ended December 31, 1972 were converted into common stock at the beginning of the period and net income applicable to common stock was increased by the related dividends and interest (net of income taxes). It also includes the additional dilutive effect of employee stock options and warrants issued prior to June 1, 1969.

Report of Independent Accountants

To the Board of Directors and Stockholders of Mercantile Industries, Inc.

We have examined the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings and changes in financial position of Mercantile Industries, Inc. and subsidiaries for the years ended December 31, 1973 and 1972. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as considered necessary in the circumstances.

As described in the Accounting Policies of Finance Subsidiaries (Note 1), during 1973 the Company retroactively changed its method of recording certain revenues and provisions for losses on receivables.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Mercantile Industries, Inc. and subsidiaries at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes, with which we concur, described in the preceding paragraph.

Price Waterhouse & Co.

Chicago, Illinois
March 18, 1974

Kay Corporation Analytical Review of Continuing Operations (000)

	Year ended December 31			
	As reported		Pro forma*	
	1973	1972	1973	1972
Income from consolidated operations				
International Trade Division	$3,300	$1,396	$3,347	$2,936
Retail Division	1,218	2,237	1,218	780
Kay Central	(584)		(466)	(45)
Income from consolidated operations	3,934	3,633	4,099	3,671
Provision for income taxes	2,000	1,875	2,000	1,649
	1,934	1,758	2,099	2,022
Provision for specific inventory losses, net of income taxes				(689)
Equity in earnings (loss) of unconsolidated affiliates:				
Metal Traders	1,290		1,347	(534)
Financial Services Division, net	2		(641)	393
Extraordinary items, net of taxes				192
Net income	$3,226	$1,758	$2,805	$1,384
Earnings per share	$.62	$.50	$.51	$.25
Average number of shares outstanding	5,213,000	3,502,000	5,450,000	5,450,000

*Pro forma results of continuing operations and per share information assume the acquisitions of present operations had occurred on January 1, 1972.

Stock Price Range

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
1973	$14⅜	$10¾	$12¼	$8½	$10⅛	$6½	$ 8¼	$4
1972	$ 7½	$ 2⅞	$12⅞	$6	$13¾	$9	$13⅛	$10

Book Value Per Share

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1973	$4.32	$4.62	$4.75	$4.98
1972	$1.23	$1.31	$2.20	$2.78

International Trade Division
Analytical Review of Continuing Operations (000)

	Year ended December 31 As reported 1973	1972	Pro forma* 1973	1972
International trading				
Revenues	$171,612	$117,388	$179,909	$135,145
Income before income taxes	2,827	1,396	2,916	2,622
Livestock and meat trading				
Revenues	7,012		7,652	4,216
Income before income taxes	473		431	314
Total				
Revenues	178,624	117,388	187,561	139,361
Income before income taxes	$ 3,300	$ 1,396	$ 3,347	$ 2,936
Metal trading				
(Investment in Metal Traders, a 50% owned unconsolidated affiliate)				
Income (loss) before income taxes	$ 4,722		$ 4,944	$ (1,094)
Provision for income taxes	2,159		2,275	
Income (loss) after income taxes	$ 2,563		$ 2,669	$ (1,094)
Net income (loss) from Metal Traders attributable to Kay	$ 1,290		$ 1,347	$ (534)

Divisional Operating Statistics*

	1973	1972
International Trade Division (excluding Metal Traders)		
Number of employees	345	335
Sales per employee	$544,000	$416,000
Percentage of pre-tax income to revenue	1.8%	2.1%

*Pro forma results of continuing operations assume the acquisition of present operations had occurred on January 1, 1972. Divisional operating statistics are prepared on a pro forma basis.

Financial Services
(Mercantile Industries, Inc., 71% owned unconsolidated subsidiary)
Analytical Review of Continuing Operations (000)

	Year ended December 31 As reported 1973	1972	Pro forma* 1973	1972
Commercial finance				
Revenues	$9,337		$11,992	$10,057
Income before income taxes	790		879	658
Consumer finance				
Revenues	5,670		7,117	6,505
Income before income taxes	710		889	2,196
Fire and casualty insurance				
Revenues	7,265		9,623	8,760
Income (loss) before income taxes	62		(1,170)	1,047
Unallocated corporate				
Revenues	425		510	145
Loss before income taxes	(302)		(342)	(459)
Income before income taxes	1,260		256	3,442
Provision for income taxes	532		41	1,580
Income before minority interests	728		215	1,862
Minority interests and preferred dividends	243		325	355
Net income (loss) to common shareholders	$ 485		$ (110)	$ 1,507
Income (loss) attributable to Kay Corporation, net of allocated charges (primarily interest and goodwill amortization)	$ 2		$ (641)	$ 393

Divisional Operating Statistics*

	1973	1972
Financial Services Division		
Number of employees	259	277
Revenue per employee	$113,000	$92,000
Percentage of pre-tax income to revenue	.9%	13.5%

*Pro forma results of continuing operations assume the acquisition of present operations had occurred on January 1, 1972. Divisional operating statistics are prepared on a pro forma basis.

Retail Division
Analytical Review of Continuing Operations (000)

	Year ended December 31 As reported 1973	1972	Pro forma* 1973	1972
Fine jewelry stores				
Revenues	$29,561	$13,378	$29,561	$22,715
Income before income taxes	1,563	1,846	1,563	901
Leased fine jewelry departments				
Revenues	10,449	3,202	10,449	9,151
Income before income taxes	508	514	508	181
Fashion stores				
Revenues	7,827	3,213	7,827	6,443
Loss before income taxes	(827)	(86)	(827)	(265)
Retail central				
Loss before income taxes	(26)	(37)	(26)	(37)
Total				
Revenues	47,837	19,793	47,837	38,309
Income before income taxes	$ 1,218	$ 2,237	$ 1,218	$ 780

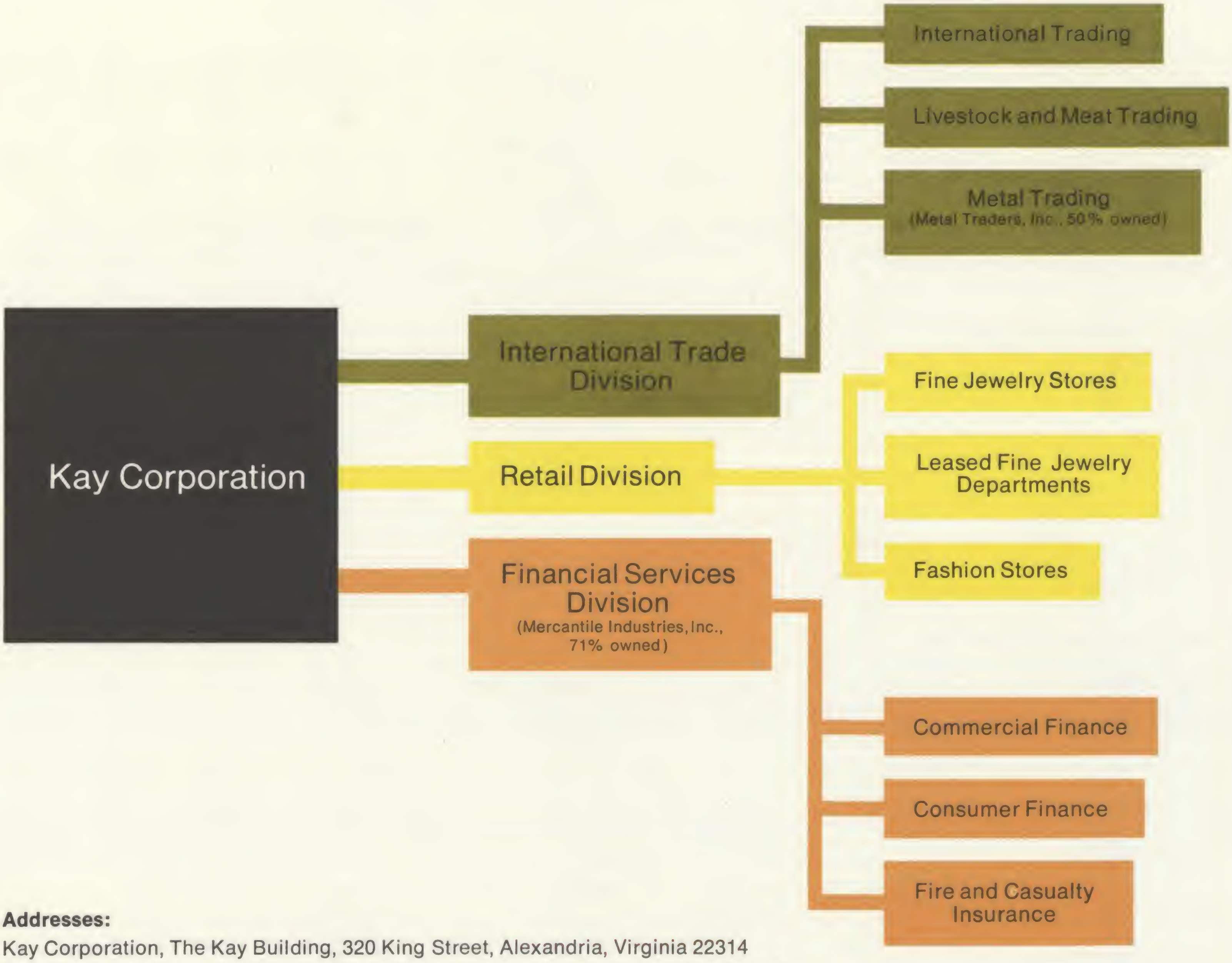
Divisional Operating Statistics*

	1973	1972
Retail Division		
Number of employees	1,365	1,241
Sales per store employee	$41,000	$37,000
Percentage of pre-tax income to revenues	2.5%	2.0%

*Pro forma results of continuing operations assume the acquisition of present operations had occurred on January 1, 1972. Divisional operating statistics are prepared on a pro forma basis.

Retail Division Sales Statistics

	1973	1972	1971
Total Retail Division			
Number of stores	214	188	175
Square feet of selling space	353,000	328,000	303,000
Sales per square foot	$ 136	$ 117	$ 98
Number of store employees	1,155	1,031	1,019
Sales per store employee	$41,000	$37,000	$29,000
Fine jewelry stores			
Number of stores	109	106	99
Square feet of selling space	194,000	189,000	176,000
Sales per square foot	$ 152	$ 120	$ 86
Number of store employees	625	565	579
Sales per store employee	$47,000	$40,000	$27,000
Leased fine jewelry departments			
Number of leased departments	36	31	30
Square feet of selling space	17,000	14,000	13,000
Sales per square foot	$ 615	$ 653	$ 607
Number of department employees	203	187	178
Sales per department employee	$51,000	$49,000	$44,000
Fashion stores			
Number of stores	69	51	46
Square feet of selling space	142,000	125,000	114,000
Sales per square foot	$ 55	$ 52	$ 57
Number of store employees	327	279	262
Sales per store employee	$24,000	$23,000	$25,000



Addresses:

Kay Corporation, The Kay Building, 320 King Street, Alexandria, Virginia 22314

Kay Retail Division, The Kay Building, 320 King Street, Alexandria, Virginia 22314

Kay International Trade Division, 88 Pine Street, New York City, New York 10005

Kay Financial Services Division, 69 West Washington Street, Chicago, Illinois 60602
(Mercantile Industries, Inc., 71% owned)

Directors and Officers
Kay Corporation

Directors:

The Earl of Carrick—*A Director of The Bowater Corporation Limited and Chairman of Ralli Brothers (Trading), Limited, London, England*

Anthonie C. van Ekris—*President, Chief Executive Officer*

Whitney I. Gerard—*Partner, Alexander & Green, New York City, New York*

Malcolm Horsman—*Deputy Chairman, and Joint Managing Director, The Bowater Corporation Limited, London, England*

C. D. Kaufmann—*Chairman Emeritus*

Michael R. Lavington—*Executive Vice President & Treasurer, and President Kay Retail Division*

Other Officers:

Arie Nugteren, *Vice President, and President Kay International Trade Division*

Dong S. Suh, *Vice President & Chief Financial Officer*

John B. Baxter, Jr., *Vice President—Administration*

Julian Rundle, *Vice President*

Roy I. Weitzer, *Secretary & General Counsel*

Murray Ackerman, *Assistant Treasurer and Assistant Secretary*

Allana Sears, *Assistant Secretary*

Robert B. McCreight, *President, Union Stock Yards Company of Omaha, (Limited)*

LeRoy L. Kohn, *President, Mercantile Industries, Inc. (71% owned)*

Allen S. Snyder, *President, Metal Traders, Inc. (50% owned)*

Transfer Agents:

Bankers Trust Company, 485 Lexington Avenue, New York City, N.Y. 10017

American Security and Trust Co., 15th and New York Avenue, N.W., Washington, D.C. 20005

Registrars:

Bankers Trust Company, 485 Lexington Avenue, New York City, N.Y. 10017

National Savings and Trust Company, 15th and New York Avenue, N.W., Washington, D.C. 20005

Banks:

The following is a list of banks providing credit lines of approximately $80,000,000 to Kay Corporation, excluding credit lines held by our two major investments, Mercantile Industries, Inc., (71% owned) and Metal Traders, Inc. (50% owned).

Bankers Trust Company: New York, New York

The First National Bank of Chicago: Chicago, Illinois

The Chartered Bank: New York, New York

Marine Midland Bank: New York, New York

European-American Bank & Trust Company: New York, New York

Israel Discount Bank Limited: New York, New York

Manufacturers Hanover Trust Company: New York, New York

Security National Bank: New York, New York

Fidelity International Bank: New York, New York

Bank of America: New York, New York

French American Banking Corporation: New York, New York

Barclays Bank International Limited: New York, New York

Northwestern National Bank: Omaha, Nebraska